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SUMMARY RECORD OF THE 2nd MEETING

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President: Mr. Seung Kon LEE (Republic of Korea)

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The meeting was called to order at 3.15 p.m.

FUTURE OF UNIDO (IDB/S.7/2, IDB/S.7/4, IDB/S.7/5, IDB/S.7/6, IDB/S.7/7, IDB/S.7/CRP.2, IDB/S.7/CRP.3, IDB/S.7/CRP.4)

1. **Mr. ELFEKI** (Egypt) said that the comprehensive review of UNIDO's situation prompted by recent events, persistent financial crisis and continuing dissatisfaction with administrative, technical and operational aspects of the Organization, should take into account current political and economic developments which highlighted the increased importance of UNIDO's role in preventing the marginalization of developing countries and ensuring their integration within the new world order.

2. UNIDO's importance in enhancing international, regional and subregional cooperation in the field of industrial development had been stressed by the United Nations General Assembly in its recent resolution 51/170, which called upon the Organization to fulfil its central coordinating role within the overall context of existing coordinating mechanisms in the United Nations system. While the reform of UNIDO was a process distinct from that of the United Nations system as a whole and was best evaluated from the vantage point of Vienna rather than New York, the resolution in question none the less reaffirmed the value of multilateral cooperation as a basic means of achieving socio-economic progress world-wide.

3. The opportunity afforded by the present session, which represented a turning point in UNIDO's history, should be grasped fully in order to arrive at a clear and stable political position shared by all Member States regarding the need to maintain UNIDO as an independent specialized organization with increasing importance for developed and developing countries alike. The creation of a new, reformed UNIDO called for a forward-looking approach and a clear vision embracing all current political and economic developments and the challenges they imposed. The new structure should be established on the basis of principles and priorities worked out among Member States. It was to be hoped that UNIDO would always remain committed to objectivity in defining its relationship with Member States and also its internal relations with its staff, so that personnel matters did not impinge on working methods. An important factor in that regard was the preservation of mutual respect among Member States and the dignity of the civil servant, which was integral to the dignity of the Organization as a whole.

4. UNIDO should focus on specialized areas, especially those in which it had recognized comparative advantages and expertise. While it should serve as a forum for the exchange of opinions and for consultations with regard to policies and follow-up to recent trends in industry, it should also devote greater attention to its operational activity in the field of technical cooperation. The latter two tasks were inseparably linked and together represented a yardstick for gauging the success and sustainability of UNIDO's activities.

5. Genuine reform would begin with the solution of the financial crisis, hence the urgent necessity that all Member States pay their contributions to the regular budget in full and on time, together with any arrears, and that a mechanism be established to achieve that purpose expeditiously. No organization could improve its performance unless it was provided with the necessary tools to do so, the most important of which was proper funding. UNIDO's reform was not, however, a mere budgetary matter; what UNIDO needed was a new spirit and a new vision of its role in the world today.

6. On a more practical level, his delegation proposed that the Secretariat draw up a table comparing UNIDO today with UNIDO after the application of the Director-General's recommendations. It would also be helpful if the Secretariat were to establish a compendium recording all the proposals submitted by various countries and groups during the presentation, since the next phase would be a comprehensive review of the Organization's reform with the active participation of the capitals concerned.

7. His delegation subscribed to the recommendations contained in the documents submitted by the African countries and by the Arab and Asian groups and reaffirmed its readiness to continue participating actively in consultations regarding the Organization's future. He called for a spirit of openness in studying the different views expressed during the current session and in future meetings so that the progress vital for all countries could be achieved. UNIDO was a forum for cooperation between North and South, and it was important to avoid unilateral decisions which might prevent the international community from discharging its historic responsibility to assist developing countries, especially LDCs, in all fields of socio-economic development.

8. Egypt still cherished the hope that those countries that had announced their intention to withdraw from UNIDO the previous year would reconsider their decision and reaffirm their continuing interest in industrial development. The current session should not be seen as the end of the road for UNIDO, development and reform. On the contrary, dialogue should continue with a view to reforming UNIDO as an independent specialized agency with a pioneering and leading role in industrial development within the framework of the United Nations system, responding efficiently and effectively to the needs and aspirations of its Member States.

9. **MR. FÖRSTER** (Netherlands), speaking on behalf of the European Union and the associated countries

Bulgaria, Cyprus, Czech Republic, Hungary, Poland, Romania, Slovenia and Slovakia, said that, while the Union recognized UNIDO's impressive reform efforts—an achievement beyond anything comparable within the United Nations system—and the consequent sacrifices by the Organization and its staff, it none the less considered that further reform was necessary, especially in view of the intention of one European Union partner to withdraw and of certain others to re-evaluate their commitment to UNIDO.

10. However, because of the importance of UNIDO for many of its Member States, including development partners of Union members, the Union had undertaken a range of consultations—in which colleagues from other missions, especially missions of the Group of 77, had been extremely helpful—with the purpose of achieving a balanced assessment of UNIDO's core functions, its comparative advantages, the countries particularly interested in its services and their needs, other organizations involved in similar activities within the United Nations system, activities deserving to be maintained, how such activities should best be pursued and which of them required a multilateral approach. Since the reform of UNIDO could be considered only within the context of overall United Nations reform, the results of the Union's assessment would necessarily be relative in character and the ideas outlined below would require further discussion with all Member States before detailed proposals could be submitted to the General Conference.

11. The European Union regarded various services provided by UNIDO in the area of industrial development as important and worth maintaining, in addition to private-sector activities and bilateral assistance. Activities should be more focused on areas where the Organization offered comparative advantages and should be grouped in one of two clusters particularly amenable to multilateral cooperation: first, strengthening of industrial capacities and, second, cleaner and sustainable industrial development.

12. The first cluster would embrace the Organization's global forum function and its normative role in providing industrial information through networking, undertaking statistical work and performing genuinely needed industrial studies linked to downstream activities. It would also include some activities from the field of transfer of technology, as well as investment promotion activities.

13. The second cluster would encompass information and advice on environmentally sustainable industrial development strategies and techniques; development of relevant norms and standards and implementation of international instruments; and transfer of environmental technologies.

14. The activities abandoned as a corollary of such refocusing could include research and industrial studies for which there was no proven demand, activities in the field of energy unrelated to cleaner production, activities requiring advanced technological support such as renewable energy, activities in the field of engineering and metallurgy unrelated to environmental issues, promotion of advanced technologies without proven industrial use and privatization activities, except where related to policy advice and quality management.

15. The following were proposed as cross-cutting priority themes: agro-industry, small and medium-sized enterprises, and environmentally friendly production focused on the LDCs, especially in Africa. Components such as the integration of women in the industrial sectors and training should be incorporated in future programmes for the sake of a more global approach. In that connection, the Union looked forward to the more specific proposals regarding the refocusing of UNIDO's activities which would emerge from the study by Denmark currently under way.

16. The ideas put forward by the Director-General in his proposal represented a first step towards tailoring UNIDO's structure and size, its staff and budget to its refocused activities, but did not go far enough for some Member States.

17. Other improvements sought by the Union included a further focusing on the LDCs, greater cost-sharing, especially with developing countries able to contribute to programmes and economies in transition, the maintenance of the mixture of upstream and downstream activities within an overall context of emphasis on the former, greater cooperation with other United Nations bodies with decentralization to the field and integration within a unified United Nations representation and a concomitant reduction of capacity at Headquarters, improved management, with clear lines of authority and accountability, and, lastly, the further implementation of the recommendations made by the Arthur D. Little consultancy.

18. Further attention should be given to the question of overlap between United Nations bodies and Bretton Woods institutions, the goal for UNIDO being to achieve complementarity in its cooperation with other organizations, funds and programmes.

19. Finally, the status of UNIDO was a matter to be decided not in isolation but in the light of the outcome of a review of the mandates of all United Nations bodies involved in development, which should be undertaken by the Secretary-General.

20. **Mr. BENMOUSSA** (Morocco) said that, in its transformation into a specialized agency, UNIDO had gained an ambitious mandate but had not been furnished with the corresponding legal and financial means of fulfilling it. Of the three conditions originally set by the developing countries—namely, that UNIDO should have autonomous decision-making powers, independent representation in the field and an adequately endowed Industrial Development Bank—only the first had been satisfied. It had

been forced to accept a limited and often ineffective presence in the field under the aegis of the United Nations Development Fund (UNDP) and to make do with the Industrial Development Fund, set up on a voluntary and therefore precarious basis.

21. Those historical setbacks had been compounded by UNIDO's failure to adapt to the rapid changes in the world economy and its inability to help the economies of the developing countries to evolve in the new context of globalization, a context which had appeared to open the door to a whole new vista of economic opportunities, but had proved far removed from a passport to development as it had originally seemed.

22. Thus, although private investment flows to the developing countries had reached $244 billion in 1996, i.e. $60 billion more than in 1995, three quarters of that amount was concentrated in only 12 countries. Furthermore, the distribution of investment among the world's regions was extremely uneven, South and East Asia receiving twice as much as Latin America and Eastern Europe, which in turn received four times as much as the rest of the developing world. Other indicators, such as the rate of increase of manufacturing value added (MVA) and the share of world industrial output, showed that the marginalization of the African continent was even more evident. Without UNIDO's crucial support the developing countries and the LDCs would undoubtedly fail to accomplish a decisive stage in their development and enter the era of globalization under the shadow of failure from the very outset.

23. There was a danger, in the face of the new ideologies of globalization and market democracy, of losing sight of the guiding principles of international solidarity and cooperation. The very concept of development was being questioned and supplanted by that of action to combat extreme poverty, and doubt was being cast on the relevance of the Group of 77 as a credible partner in multilateral negotiations. Despite their apparent dissimilarities and the progress achieved in some regions, developing countries continued to be united by their vulnerability in a wide spectrum of socio-economic areas and by their shared awareness of being the victims of international rules that were often inequitable. Thus, despite the acknowledged advantages of globalization, it offered no panacea to the ills of social dislocation throughout the developing world and no answer to the exclusion of the LDCs or the marginalization of the African continent from the world economic process.

24. Unilateral withdrawal from UNIDO for budgetary or economic reasons should not be seen as a bold move, but rather as an abdication of responsibility at a time when multilateralism was the price to be paid for preventing vast areas of the globe from plunging ever deeper into social chaos and for ensuring a better and safer world for all. True courage lay in refusing to subordinate the solution of global problems to that of local ones, there being indeed a place for the partnership of co-responsibility somewhere between patronizing assistance and heartless abandonment.

25. The UNIDO that the developing countries hoped to see emerge from the reform process was a universal and independent organization with strengthened deliberative, normative and operational functions; an organization with the necessary technical expertise to respond to the specific needs of the recipient States; an organization with a reinforced presence in the field enabling it to implement model projects, promote regional integration and anchor the economies of the developing countries and the LDCs in areas of economic prosperity; an organization free from exorbitant administrative costs and red tape, open to constructive internal criticism and able to motivate its entire staff to achieve the goals set by the international community.

26. In that connection, the case of Mr. A. Kayalar, a senior official of recognized competence and integrity, was particularly alarming and should be reconsidered in accordance with the dictates of legality and humanity.

27. A reformed UNIDO should have clear and well-defined criteria for project selection and implementation, together with mechanisms designed to promote the mobilization of funds, transfer of environmentally sound technologies and attraction of industrial investment to boost the economies of developing countries.

28. In order to help the Organization overcome the major obstacle represented by its financial difficulties, the working group set up for that purpose should fix its attention on realistic solutions. In that regard, unlike the majority of Member States, Morocco had already paid its contribution to the 1997 regular budget in keeping with its tradition of full and regular payment. In addition, his country had always lent the Organization its active support to help it find lasting solutions to its financial problems, increase transparency in its management practices and encourage a climate of trust between the Secretariat and Member States.

29. Finally, in recognition of the interdependence of all countries, whether developed, in transition or developing, and of the need for a multilateral quest for joint solutions to the global problems of development and security, he appealed to all delegations to make the current special session a springboard for UNIDO's lasting revitalization on sound and consensually agreed bases to be decided during the session itself, with a view to consideration by the General Conference at its eighth session.

30. **Mr. SOKOLOV** (Russian Federation) said that the recent challenges confronting UNIDO had been sufficiently serious to reveal the need for its complete renewal in order to re-establish confidence on the part of donor countries and even recipients. Only such thoroughgoing reform could offer a viable alternative to the extreme proposals put

forward for UNIDO's future. At the same time, it was necessary to preserve the Organization's universality and global scope, a condition that was crucial not only to the balance of interests between donors and the different groups of recipients, but to UNIDO's very survival.

31. Regarding UNIDO's status, the need for a viable entity to promote industrial progress in developing countries and countries in the final phase of their transition to a market economy meant that the Organization should be preserved as an independent specialized agency within the United Nations system, with clearly defined priorities and functions, the chief of which were to attract foreign investment, promote environmentally friendly industrial development, assist in the transfer of environmentally clean technologies, perform expert studies at the sectoral and enterprise level and promote integrated industrial development at the regional level.

32. At the same time, UNDO's role as a unique international forum for global industrial development problems should be preserved. The possibility of adjusting those priorities periodically in accordance with the changing needs of Member States should also be explored. Preserving UNIDO's autonomy would also help maintain its impartiality, its capacity for accumulating international experience and its ability to attract and channel funding from specialized sources.

33. Concerning specific reform measures, his delegation approved of the plans to discontinue the build-operate-transfer (BOT) programme, full-scale feasibility studies for individual projects and the privatization programme and to dismantle the Human Resource Development Branch as a separate organizational unit, the latter on condition that human resources development would be integrated within technical cooperation projects. His delegation also supported the decentralization of UNIDO's work through the establishment of a limited network of regional and sub-regional offices and the redeployment of significant numbers of Headquarters staff to the field, while Headquarters retained a coordinating function only.

34. The proposed economy measures by, for example, reducing volume of documentation and introducing more modern means of information processing and transfer, were to be commended.

35. The goal of enhancing interdepartmental coordination and efficiency within the policy-making organs, as well as streamlining general management as a whole, lent a practical dimension to the question of reinstating the post of deputy to the Director-General, a decision which his delegation supported. The incumbent should be a highly competent administrator with a thorough inside knowledge of UNIDO.

36. Concerning the Organization's budget, his delegation was in favour of sensible cost-cutting measures to be applied first and foremost in the administrative and support areas. Such reduction should be realistic and should not cast any doubt on the Organization's independent status. Furthermore, the pattern of reductions should mirror the distribution of resources according to the Organization's main areas of activity rather than its organizational structure. In that regard, support should be given for the basic approach put forward by the Secretariat with regard to developing stable sources of income. His delegation endorsed the measures proposed to ensure timely payment of regular budget assessed contributions, to introduce flexibility in the financial rules and regulations, to develop innovative approaches towards the mobilizing of extra-budgetary resources, and to provide services against payment.

37. For its part, Russia had made and would continue to make serious efforts to discharge its debts to the Organization and had already paid $10 million in 1996 and early 1997, a figure corresponding approximately to its assessed contributions for two years.

38. His delegation was in favour of establishing a flexible and effective mechanism in order to attract funding from potential investors, and therefore supported the proposal to develop a "business plan" to be considered at the September session of the Programme and Budget Committee.

39. In conclusion, the only politically and economically justified alternative to the proposed merger proposals was to work out an effective division of labour between independent specialized agencies, among which UNIDO would take its well-deserved place. As well as their uncertain end effects, merger options would lead to excessive centralization and would eliminate the vital component of healthy competition for financial resources within the United Nations system. Furthermore, any change in the Organization's status would be bound to adversely affect the current technical assistance programmes, while also raising concomitant problems of a legal nature and entailing additional costs for Member States.

40. Generally speaking, UNIDO's Member States shared the view that the Organization should, without forfeiting its universality, focus its activities on LDCs while having greater recourse to cost-sharing arrangements in the case of the more advanced developing countries and countries with economies in transition. In that regard, the "transition" countries should not be viewed as net recipients of UNIDO assistance, since they were major contributors to its budget and, with their considerable industrial potential, were already becoming partners of developing countries, especially in fields such as technology transfer. The assistance provided by the international community to transition countries to help them overcome their temporary difficulties should be seen as a kind of "futures deal", an investment in the future aimed at restoring their donor potential.

41. **Mr. INNES** (United Kingdom) said that his Government's announced intention to leave UNIDO with effect from 31 December 1997 would be reviewed later in the year in the light of developments on wider United Nations reform. The United Kingdom reserved its position on the future status of UNIDO.

42. **Mr. VON KOPPENFELS** (Germany) said that his delegation associated itself fully with the statement made by the Netherlands on behalf of the European Union.

43. The attitude of his Government towards UNIDO was guided by the Cabinet decision, taken in December 1996 against the background of severe budgetary problems and the need to set development policy priorities. Germany firmly supported thorough and meaningful reform of the economic and social sector of the United Nations and consistent implementation of all relevant decisions. With its G7 and European Union partners, it would actively work for such reforms in the United Nations and specialized agencies.

44. His Government would consult its European Union and G7 partners without delay on the best ways of intensifying the reform process in UNIDO. All possible options would be considered, including the further concentration of UNIDO activities in a limited number of core areas, the integration of UNIDO into the United Nations system proper and the dissolving of UNIDO and transfer of important functions to other international organizations.

45. In the light of the outcome of such consultations and any further reform achieved, his Government would consult its G7 and European Union partners in the course of 1997, on further action, possibly including withdrawal from the Organization.

46. **Mr. TIWARI** (India), speaking on behalf of the Asian Group, said that sustainable development had global repercussions in an interdependent world and should always be addressed in global forums.

47. Industrial development was the engine of economic growth. Interdependence and the rapid growth of communications demanded a global, rather than a sectoral or regional approach.

48. UNIDO was unique in the United Nations in helping developing countries achieve industrialization. Its contribution might be a mere fraction of a country's industrialization process, but its role was catalytically relevant, particularly as a global storehouse of technologies and advice on attracting direct foreign investment and privatization.

49. UNIDO's regrettable situation was due to internal inadequate management and withdrawals or intended withdrawals of some Member States, thus diminishing the resources available to fulfil its tasks. The donor countries had not been convinced of the continued usefulness, need and relevance of the Organization. There were questions about management, *esprit de corps* and transparency. Owing to the failure to make contributions to the regular budget punctually huge arrears had accumulated.

50. In the opinion of the Asian Group, UNIDO was needed as a specialized United Nations agency. It should be efficient, functional, transparent, professional and responsive to the needs of Member States. It had an important operational project implementation role in industrial development and ought to focus on activities with maximal impact on industrial development. Greater attention should be paid to human resource development, small- and medium-scale enterprises and industries and South-South cooperation.

51. UNIDO's functions should be streamlined and restructured to make it thematic and decentralized, wherever functionally necessary, with each division covering geographical programmes and priorities. The sections in charge of operational activities in the field should be responsible for funds mobilization.

52. The Organization should focus on priorities, considering the resources available, and bureaucratic management should be avoided. Decentralization was a key factor in upstream programming and every Professional staff member should be eligible for transfer to the field. Technical assistance should be delivered mainly through the UNIDO Country Directors or UNIDO's subregional offices, on the basis of cost-sharing by recipients, even of a small proportion of project expenses, in the form of reimbursement of part of the local cost. Cost-sharing would reflect the priority attached by the recipient country and its commitment to the project. A streamlined and dynamic UNIDO could operate with four departments.

53. The members of the Asian Group had resolved to pay their assessed contributions to the regular budget punctually and in full and appealed to defaulting Member States to clear their arrears and pay future contributions on time.

54. Management was crucial to the performance of any institution and UNIDO's management and administration should be revitalized. The Director-General's decision not to stand for re-election was courageous and opened up the possibility of new leadership. The members of the Asian Group were committed to discussing all issues in a constructive, cooperative and positive spirit.

55. **Mr. IKEDA** (Japan) said that current financial circumstances obliged the major industrialized countries, including Japan, to adopt stringent financial and fiscal measures. In such a severe international economic environment, Japan believed that UNIDO had one last chance to revitalize itself, based on its newly defined role and identity. Failure might not only lead other major donors

to withdraw from the Organization but might also jeopardize the very future of UNIDO.

56. The problem for UNIDO did not stem from the threat of withdrawal by certain Member States, but lay in whether or not a new identity could be created for UNIDO in a changing world. The question of UNIDO's reform was also related to the reform of the United Nations system.

57. The international community was searching for a new world order and increased expectations were being placed in the United Nations in shaping a new framework for international cooperation. It was imperative to strengthen the United Nations system as a whole. In that context, Japan had launched the "new development strategy", with new approaches to development issues to address the growing globalization and interdependence of the world economy. Such a strategy should also be applied to the reform of UNIDO. The central idea was the ownership by developing countries of the development process and the establishment of a "new global partnership" in which developed and developing countries committed themselves to addressing development issues in a more cooperative manner.

58. The economic development efforts in developing countries called for a comprehensive approach with multi-faceted development policies employing a broad range of tools, such as trade, foreign direct investment and technology transfer, as well as official development assistance. An individual approach, with detailed policies that could respond flexibly to the needs of developing countries, was also important.

59. With regard to the international organizations, the strategy stressed organizational reform and cross-organizational coordination, avoiding duplication of roles and guaranteeing effective service delivery.

60. Japan proposed that any funds generated by cost-saving through the United Nations reform process should be re-invested in development.

61. Since there was very little prospect of an increase in funds for UNIDO activities, its function as an implementing agency for technical cooperation projects should be re-examined, to avoid duplication with official bilateral development assistance. UNIDO should seek to ensure its survival by concentrating on a very limited number of core activities that could not be supported by bilateral assistance. In the longer term, UNIDO should cease to be an agency for implementing specific downstream projects and should strengthen its upstream activities and be a catalyst for developing country industrialization. Such upstream activities included policy advice and services related to the global forum function, as well as activities and services which strengthened market forces in trade and investment.

62. One criticism of UNIDO was that support for industrialization should be left to the private sector. Such criticism was, however, related to a very few extreme cases which were not relevant to developing countries in general. The international organizations had a positive role to play in assisting development in developing countries because market forces were insufficient to support industrialization.

63. His Government considered that investment promotion was vital in the context of refocusing UNIDO's priorities; the stimulation of market forces could contribute to the globalization process. That was an area in which UNIDO had comparative advantages.

64. Sustainable and cleaner industrial production and implementation of projects funded under the Montreal Protocol were vitally important to prevent pollution caused by industrialization. Such activities required the expertise and experience of international organizations such as UNIDO and should remain in the UNIDO programme. UNIDO's sectoral expertise gave it an advantage over other international organizations.

65. Activities to support small- and medium-scale industries were important in the industrialization of developing countries, including the least developed countries. UNIDO had an advantage in regional projects, where bilateral official development assistance was not enough, encompassing several countries. Regional projects could provide dual benefits for individual recipients in the region and promote cooperation to assist the entire region, in areas such as assistance to small- and medium-scale industries and agro-based industrial sectors.

66. Activities in human resource development, privatization and energy should be discontinued, given UNIDO's insufficient expertise and resources. Human resource development could be a cross-organizational issue and be incorporated in project implementation.

67. The principle of universality should be maintained in the geographical distribution of UNIDO's services and activities, enabling UNIDO to support both developing countries and economies in transition, focusing on least developed countries, particularly in sub-Saharan Africa. Consideration should be given to "aid graduation" and cost-sharing, depending on the circumstances of recipient countries.

68. In the administrative and budgetary sector, staff reduction should be pursued in order to make UNIDO highly professional and more effective and efficient. The Secretariat should be restructured and steps taken to re-allocate staff from discontinued functions to new functions in refocused priority activities.

69. It was imperative to strengthen field offices to deliver advisory services, reflecting the genuine deve-

lopment needs of the countries concerned. There should be closer coordination between the offices of the United Nations system and other related international organizations in the area of development.

70. The 10 per cent reduction in the budget for the biennium 1998-1999, corresponding to the decrease in assessed contributions caused by the withdrawal from UNIDO of some Member States, was a minimum requirement, so that administrative costs should be rationalized and unnecessary costs reduced further. Japan would call for deeper cuts on the basis of the final outcome of the reform efforts.

71. Japan, together with other like-minded Member States, would pursue the vigorous efforts of UNIDO reform and his delegation looked forward to working with other Member States to find common ground for revitalizing the Organization. The Japanese Government was obliged to take stringent financial and fiscal measures and found it increasingly difficult to maintain the current level of contribution to international organizations. It might become difficult for Japan to continue to support UNIDO unless the Organization showed itself truly worthy of support. Japan strongly hoped that the adoption of a concrete reform plan would lead to a successful conclusion at the next session of the Board.

72. **Mr. PRASAD** (India) said that UNIDO's future had never been more uncertain. The Director-General's note could be a starting point for consensus on the reform agenda. The suggestions made by some Member States and regional groups were also very useful. The change should take into account emerging economic realities. Institutions around the world were compelled to accommodate such realities and UNIDO was no exception. Economic linkages were being fostered on the basis of private enterprise and market-related commercial norms. The transition cost of upgrading the technologies currently available in the developing countries to match the new global standards could not be left completely to market forces. Without UNIDO's guidance, the local entrepreneurial base could be eroded and the resulting chaos would delay the reform efforts under way in several developing countries.

73. The recent Ministerial Conference of the Movement of Non-Aligned Countries in New Delhi had emphasized the importance of UNIDO as a specialized agency vital to the promotion of industrial development in emerging economies.

74. India had gained considerably from UNIDO's timely intervention, effectiveness and quality technology, with a multiplier effect in the development of its entire economy. The Organization had contributed to the Government's efforts to ensure a more equitable and social distribution of the nation's wealth. India was grateful to UNIDO for its support of industrial promotion, particularly in the leather industry, and appreciated the personal initiative of the Director-General.

75. His delegation broadly endorsed the analysis and options outlined in the Director-General's proposals and the views of the Asian Group, which had already been included in the comments of the Group of 77 and believed that downsizing the workforce at Headquarters and strengthening the field offices would ensure better delivery and improve UNIDO's visibility. The exercise should not be restricted to the Country and Funds Mobilization Division. Where possible, technical experts should be shifted to the UNIDO Country Director offices, taking account of their expertise and the requirements of local industry.

76. Since the proposal to set up subregional offices might create an extra tier without enhancing efficiency, efforts should be made to strengthen the field offices and to empower them to decide on new project approval or modifications of ongoing projects.

77. Experience had shown that local participation was critical to the success of the programme. The involvement of local industries and institutions should be stepped up, preferably through a coordination committee made up of government officials, the UNIDO Country Director and industry representatives, which would discuss and monitor the annual action plan of UNIDO in the country. That would ensure transparency and improve effectiveness at field level.

78. Relentless efforts should be made to cut costs; emphasis should be placed on the hardware component of the programme and the utilization of local resources.

79. Greater emphasis should be placed on South-South cooperation in investment promotion and technology transfer, with a minute evaluation of project costs in relation to usefulness and local relevance in developing countries.

80. Among the three sector programmes on sustainable technology proposed by the Director-General, greater emphasis should be given to agro-based industries. Strategies for investment promotion and technology transfer might address industries across the board, but the focus on small- and medium-scale enterprises should not be sacrificed.

81. Industrialization was more complex in a liberalized environment. Widespread choices of technology, product design and process efficiency called for greater expertise to blend those elements into an engine for industrial growth and competitive advantage. Market forces could handle this complexity only to a limited extent.

82. There was a perceived need for the advice and counsel of an expert organization which was unbiased in its

assessment and global in access. UNIDO was clearly the obvious choice for that role.

83. It was widely accepted that small- and medium-scale enterprises had to benefit from any successful industrialization process as they were often a major source of employment. Irrespective of their location, such enterprises all faced common challenges and opportunities. UNIDO should continue to foster synergies in strategies and technologies and the universal adoption of proven models.

84. In the altered global scenario, UNIDO could play a significant role in formulating sector-specific strategies for developing countries; its pioneering role in pollution control and eco-friendly industrialization was a further positive factor.

85. UNIDO's extensive global industrialization database could provide unique information and a global platform for national, regional and international policy initiatives to establish a level playing field between the industrialized and developing countries.

86. He reiterated his Government's commitment to support UNIDO and its confidence that all countries, particularly the developed countries, would empower UNIDO to discharge its mandate as a specialized agency within the United Nations system.

87. **Mr. MEYER MEDINA** (Observer for Bolivia), speaking on behalf of the Latin American and Caribbean Group (GRULAC), said that he hoped that clear guidelines for future action would emerge from the current special session and that the deliberations would be conducted in an atmosphere of mutual understanding based on a practical approach.

88. The Latin American and Caribbean region had closely followed recent events and the course of UNIDO's reform process pursued since 1993 as a result of agreements reached at the Yaoundé General Conference session. The steps taken to date since the initiation of the reform exercise had led to the attainment of many objectives, which had visibly improved the Organization's profile and performance. It was fitting to recognize the role played throughout that phase by the management and its support team, and also the efforts deployed during those years, which now needed to be intensified.

89. Industrial development was an issue of paramount importance for his region, so that it was essential to have within the United Nations system a specialized and independent organization capable of providing and continuing to provide support activities in the industrial field that would contribute to the integration of developing countries in the increasingly uneven globalization process.

90. In setting priorities for its future activities, UNIDO should focus on its role as a global forum and as an instrument for enhancing institutional capacities, channelling investment and technology flows, and promoting sustainable industrial development. Also, its field representation should be strengthened and the functioning of its policy-making organs improved. All those envisaged areas of action called for the timely fulfilment by Member States of their obligations towards the Organization.

91. Both the General Assembly, in its resolution 51/170, and the Non-Aligned Movement, at its recent meeting held in New Delhi, had reaffirmed the need for UNIDO's existence. That view could not but be endorsed by GRULAC, whose position was set out in document IDB/S.7/7, now before the Board, and in various draft decisions. GRULAC also believed that, as a regional group, it could contribute during the current session to the achievement of a consensus on the major guiding principles for the coming years.

92. He reiterated his aspiration for support by the developed countries in the major undertaking now facing UNIDO and called upon all Member States to redouble their efforts to ensure the Organization's survival.

93. **Ms. OK** (Turkey) said that the current special session was being held in an attempt to give UNIDO a future in which it could perform an exclusive role in support of the industrialization of developing countries, taking into account the specialized areas of operation of the other agencies within the United Nations system.

94. Her delegation was gratified that the documents submitted by individual States and groups of countries in preparation for the session indicated a general consensus among the Member States as to the principles that should define UNIDO's future. Her delegation, which shared the views expressed, believed that, while UNIDO was an independent United Nations organization, its reform process should be assessed within the overall United Nations reform exercise and should be pursued in a spirit of partnership between the Secretariat and Member States. Also, the reform should concentrate on reducing superfluous budgetary expenses, particularly on items for travel of high-level staff and unnecessary consultations, publications and meetings.

95. The question of developing innovative ideas for the mobilization of additional resources, which had been on the Organization's agenda for four years and for which a special department had been set up, still remained unsolved.

96. Her delegation disagreed with the Secretariat's approach in presenting, in document IDB/S.7/2, three or four budgetary scenarios reflecting further hypothetical withdrawals of Member States, with a possible further 25 per cent reduction in staffing levels. Such scenarios, which affected staff morale and dedication, should not be publicized before circumstances so required.

97. UNIDO should focus on priority programmes that could be grouped under two or three broad activities, and should scale down its global aspirations to an exclusive role within the United Nations system and utilize its existing critical mass. Its administrative structure should be reviewed in accordance with that new grouping of programmes, with the appointment of a deputy to the Director-General, who would act during the latter's absences. How the programme clustering was arranged was not as important as how the critical mass was utilized within the programmes and how vertical or horizontal coordination was pursued.

98. Regarding the issue of decentralization to the field, while the concept of subregional offices with enhanced programme development and funds mobilization functions, coupled with stronger delegation of authority and performance incentives, had been discussed at Board sessions for four years, the Secretariat had not been successful in pursuing the necessary negotiations to initiate the implementation of that concept. More consultations between management and representatives of Member States in Vienna and follow-up action were required before such new concepts could be translated into reality.

99. She was satisfied to note that several Member States were developing the concept of ownership of the Organization and were stressing the need for scrutiny by Member States. Closer monitoring of UNIDO by its Members would have resulted in gradual changes to ensure that it served their needs and would have prevented the drastic cuts facing the Organization. Her delegation had supported the concept of consultations between Member States and the Director-General, as set out in a resolution adopted at the last General Conference session, but its implementation had been arbitrary and had not satisfied many Member States. Her delegation therefore endorsed the proposal to create a system of close scrutiny over UNIDO management with regard to high-level appointments, recruitment and postings, and approval of projects over a specific amount.

100. At the time of the Director-General's appointment in 1992, the need had been recognized for sound management practices, with effective delegation of authority, appropriate consultation of staff, and a management environment conducive to basic trust. There was currently a management crisis, arising from loss of confidence in management by a large number of Member States, as demonstrated in specific cases of arbitrary dismissal of high-level personnel, including UNIDO's most senior Turkish officer. Management could be successful only if it were open, democratic and based on individual human rights; and managers could achieve good results if they worked as a team and created an atmosphere of confidence in the Organization. However much programmes were clustered, it would not be possible to prevent the withdrawal of more and more States if there were no alternative to the present style of management.

101. The Turkish delegation regarded the Director-General's announcement, at the previous meeting, of his intention not to stand for re-election as a natural consequence of recent developments and, in particular, of the documents circulated by the representatives of the Group of 77, the African Group and the League of Arab States. The fact that the announcement had been made at the opening meeting, rather than during the debate on agenda item 4, had caused a considerable loss of time.

102. **Mr. BØJER** (Denmark) said that a review of the UNIDO reform commissioned by the Danish Ministry of Foreign Affairs earlier in the year was being carried out by an independent team of development and management experts, as a follow-up to a study undertaken by the same Ministry in 1992 on UNIDO's comparative advantages, areas of concentration, organization and resources, the objective of the review being to assess the reform measures implemented by UNIDO since 1993 and to determine whether the continued existence of the Organization as a specialized agency could be justified, in the light of the need for its services and the resources available to it. The final report on the review, which would be completed in late May 1997, would also contain observations on issues relating to UNIDO's future areas of concentration and organization.

103. Denmark was committed to continued assistance in the field of industrial development, which remained a precondition for long-term sustainable economic growth and social advancement. Industry played a pivotal role in advancing technology, increasing productivity, promoting entrepreneurship, generating employment and income, both directly and indirectly, and in creating sectoral linkages, including linkages with agriculture and the services sector. Such assistance helped to lay the foundations of growth and development, by fostering employment creation and income generation, and was essential for achieving sustainable poverty alleviation.

104. Very few countries with developing and transition economies had attained an economically sustainable and internationally competitive level of industrial development. In many countries, industrial development was still far from being a self-sustained process, and support was still a critical factor in enabling them to benefit from industrialization, international trade and global competition.

105. The requirements for technical cooperation services in support of industrial development had changed considerably over the past decade, but had not decreased—rather the opposite. There was accordingly a definite need for a neutral and independent provider of integrated services in support of industrial development and international industrial cooperation. Also, international pressure for industrial and technological restructuring in accordance with emerging standards for environmental protection and pollution control was adding to the requirements for international cooperation and technical cooperation services.

The growing significance of quality as a determinant of international competitiveness further reinforced the need for international technical cooperation, particularly in areas such as international standards setting and institutional capacity-building for quality control.

106. The findings of the Danish review indicated that UNIDO's efforts to focus and streamline its activities up to April 1997 almost completely implemented the changes sought by Member States. However, the severe budget reductions, not foreseen when the reform process had been initiated, might require further focusing and additional efficiency-enhancing administrative rearrangements in order to achieve a better balance between the resources available and the tasks to be performed. Much still remained to be done, particularly with regard to a more horizontal and integrated approach.

107. The balance between UNIDO's strengths and weaknesses had improved as a result of the reform process, but considerable scope still remained for further exploiting the Organization's potential comparative advantages. UNIDO's ultimate strength lay in its ability to provide packages of integrated services adapted to the specific needs of countries with developing and transition economies.

108. There was scope for reducing administrative and operational support costs still further, and expenditure could be reduced by discontinuing some programmes and activities, without affecting the Organization's comparative strengths. However, in view of the increasing demand for UNIDO's core services, overall budget cuts could not be justified, and any savings from efficiency-enhancing measures and the discontinuation of activities should be transferred to those core services. While UNIDO had improved its cost-effectiveness considerably within a short span of years, further progress could still be achieved, bearing in mind that the ratio between General Service and Professional staff was still high.

109. The review team recommended the continuation of UNIDO as a specialized agency but, if the overall United Nations reform initiatives altered fundamental aspects of the entire framework, the status of UNIDO would have to be reviewed in that wider context. The final report of the Danish survey would be made available to all interested Member States and its conclusions would be taken into consideration in determining Denmark's final position with regard to UNIDO's future and preparations for the next General Conference session.

110. **Mr. POSTA** (Hungary), speaking on behalf of the Czech Republic, Hungary, Poland and Slovakia, said that the seriousness of UNIDO's situation, following the announcement by some Member States of their withdrawal and the intention of others to do so, had given rise to active participation in informal discussions in an attempt to formulate UNIDO's future mandate and scope of activities so as to enable it to fulfil its mandate. The exchanges of views at those discussions had been encouraging, and it was hoped that the valuable proposals put forward would lead to a common understanding of how to stabilize the Organization's political and financial situation and increase its efficiency, for the benefit of Member States. The proposals contained in document IDB/S.7/2 on the future direction and priorities for UNIDO and the views expressed during recent consultations provided a sound basis for exploring the common elements on which UNIDO's future activities could be built. While it was not realistic to expect final decisions on all major issues to be reached at the current special session, it was hoped that real progress would be achieved, and that the exercise would be concluded at the next General Conference session.

111. The Czech Republic, Hungary, Poland and Slovakia, as current beneficiaries and, in the longer term, increasingly as donor countries, were interested in a stable, well managed and efficiently run UNIDO, capable of effectively supporting the industrial development of developing countries while still possessing sufficient resources to provide services for countries with transition economies. The countries on whose behalf he was speaking expected from UNIDO a more innovative approach in developing new forms of cooperation following the discontinuation of some traditional forms. They were convinced that UNIDO's expertise could be employed in the service of both countries with developing economies and of those with transition economies. Even countries well advanced in the transition process required international support to adapt their industry and infrastructure to the evolving standards required for European integration. As donor countries, they could be useful partners in transferring technology and know-how to developing countries and to the Commonwealth of Independent States. That would also benefit the more developed of the developing countries. Insufficient attention on UNIDO's part to those issues would lead to a decline of interest on the part of an increasing number of countries in supporting UNIDO's future activities.

112. UNIDO should remain an autonomous specialized agency of the United Nations system and continue to provide services to the developing countries and the countries with economies in transition. It would be inappropriate on practical grounds that UNIDO should revert to its former status; to transform its organizational form or merge it with another United Nations agency would require considerable political and organizational efforts, time and financial resources. UNIDO's future activities and organizational structure needed to be synchronized with the ongoing reform of the United Nations system.

113. It was essential to build on the lessons and positive results of the reform process of recent years and to adapt UNIDO to changing international circumstances, taking into consideration the decline in confidence in the efficiency and effectiveness of multilateral assistance

cooperation and also the serious budgetary constraints experienced by most donor countries. The reform measures undertaken to date had had insufficient impact. They had been aimed at accommodation of the reduced budget and personnel cuts rather than at facing new challenges. The machinery of the Organization still creaked. The seven priorities, with 21 components and 32 subsectors, were too general and accordingly did not provide a genuine focus, the decision-making process was still slow, and the project cycle could be further simplified. Coordination at the senior management level was not sufficiently synchronized and the Organization's administration could be made more streamlined. It was necessary to rely on UNIDO's recognized assets: its highly qualified and experienced staff, well-established network of experts, accumulated experience in the area of investment promotion and support for environmentally friendly industries.

114. The new direction and scope of UNIDO's future activities called for the political and financial support of the donor community, even if that meant a smaller organization with more focused activities. In view of budgetary constraints in some donor countries, the reduction in the budget should be carefully balanced in line with the reduced membership of the Organization. It would be beneficial in the long term to have a programme and budget ceiling that could be met by the main donors, in order to create a stable and predictable environment for UNIDO's future work.

115. UNIDO's dual role as a global forum and as a provider of specialized technical cooperation services should be maintained, with a need to focus in both areas, and, in the Organization's future operations, the service provider function should predominate. In the reformulation of priorities and guiding principles, attention should be paid to the needs of countries with economies in transition.

116. Regarding the thematic and sectoral priorities, the programme clustering proposed in document IDB/S.7/2 was for the most part acceptable. While the requirements of other regions had to be taken into account, it was felt that at the current juncture the following activities and thematic priorities should be included: investment and technology transfer promotion, regional development, promotion of environmentally sustainable industrial development, support of small- and medium-scale industry, quality control and standardization. With regard to sectoral refocusing, UNIDO should give prominence to the engineering, chemical, pharmaceutical, agro-based, glass and metallurgical industries.

117. The successful implementation of UNIDO's future programmes called for a committed and strengthened management. It was logical to first decide on the future concept of the Organization, including the senior management structure, and then appoint the Director-General for the coming term. The deadline for submitting candidatures for the post of Director-General should therefore be extended, while respecting the relevant provisions of the Board's rules of procedure. There was also merit in the proposal to strengthen management by the establishment of a new post of deputy Director-General; beneficiary and donor countries should be represented at the highest echelons of management. Increased control by Member States over the Organization's general operations, but without any involvement in micro-management, appeared to be a justified additional step.

118. There was a need to revise the number of priorities for future activities and thus to further focus the Organization's resource utilization. UNIDO's next budget cycle should be based on those new principles. It might not be possible to complete the complex tasks facing the current special session, and work would thus have to continue during the next Board session and possibly until the next General Conference session.

119. **Ms. PENSADO MORENO** (Mexico) said that her delegation attached particular importance to the current special session, whose purpose was to discuss the future of UNIDO. Since it was necessary to redesign the Organization, taking advantage of the experience acquired to date, her delegation hoped that the deliberations in the coming days would result in a renewed commitment on the part of Member States and in the formulation of specific mandates and guidelines for the pursuit of that endeavour.

120. The Mexican delegation fully endorsed the content of the position paper (IDB/S.7/7) submitted by GRULAC as a contribution to the debate. It agreed that UNIDO should remain a specialized agency within the United Nations system in the industrial field, with no loss of independence or of its Members' decision-making authority. Also, appropriate coordination with current efforts to reform the United Nations system as a whole should be ensured but the UNIDO reform process should not be delayed pending the outcome of that overall exercise.

121. Her delegation supported the four key areas proposed in document IDB/S.7/7 for UNIDO's future work, and wished to emphasize the importance of decentralization through field representation.

122. While welcoming the constructive contributions made by some countries and regional groups, her delegation regretted the presentation of proposals aimed at diverting the discussion towards issues unconnected with the redefining of UNIDO, thereby creating an unhelpful atmosphere and causing loss of time.

123. She hoped that the Director-General's proposal on the future of UNIDO (document IDB/S.7/2), which was the product of consultations with Member States and incorporated the contributions submitted by interested countries and groups, would form the basis for the adoption of relevant decisions for reshaping the Organization. The next sessions of the Board and Programme and Budget Committee would be required to present for consideration

to the seventh session of the General Conference not only the proposal for the new UNIDO, but also its corresponding programme and budgets for 1998-1999. More precise guidelines on the latter issue were thus called for. The Mexican delegation believed that, in fixing the ceiling for the regular budget, the principle of zero real growth should be maintained, bearing in mind the announced withdrawal of two Member States, which would mean a reduction of some 10 per cent in the regular budget as from 1998, in addition to the 25 per cent reduction that had had to be faced in the current year owing to the withdrawal of the largest contributor.

124. Finally, her delegation called upon all Member States to renew their political and financial commitment to the Organization, whose future depended on them.

The meeting rose at 6 p.m.